FEBRUARY 14, 1983 THREE DOLLARS

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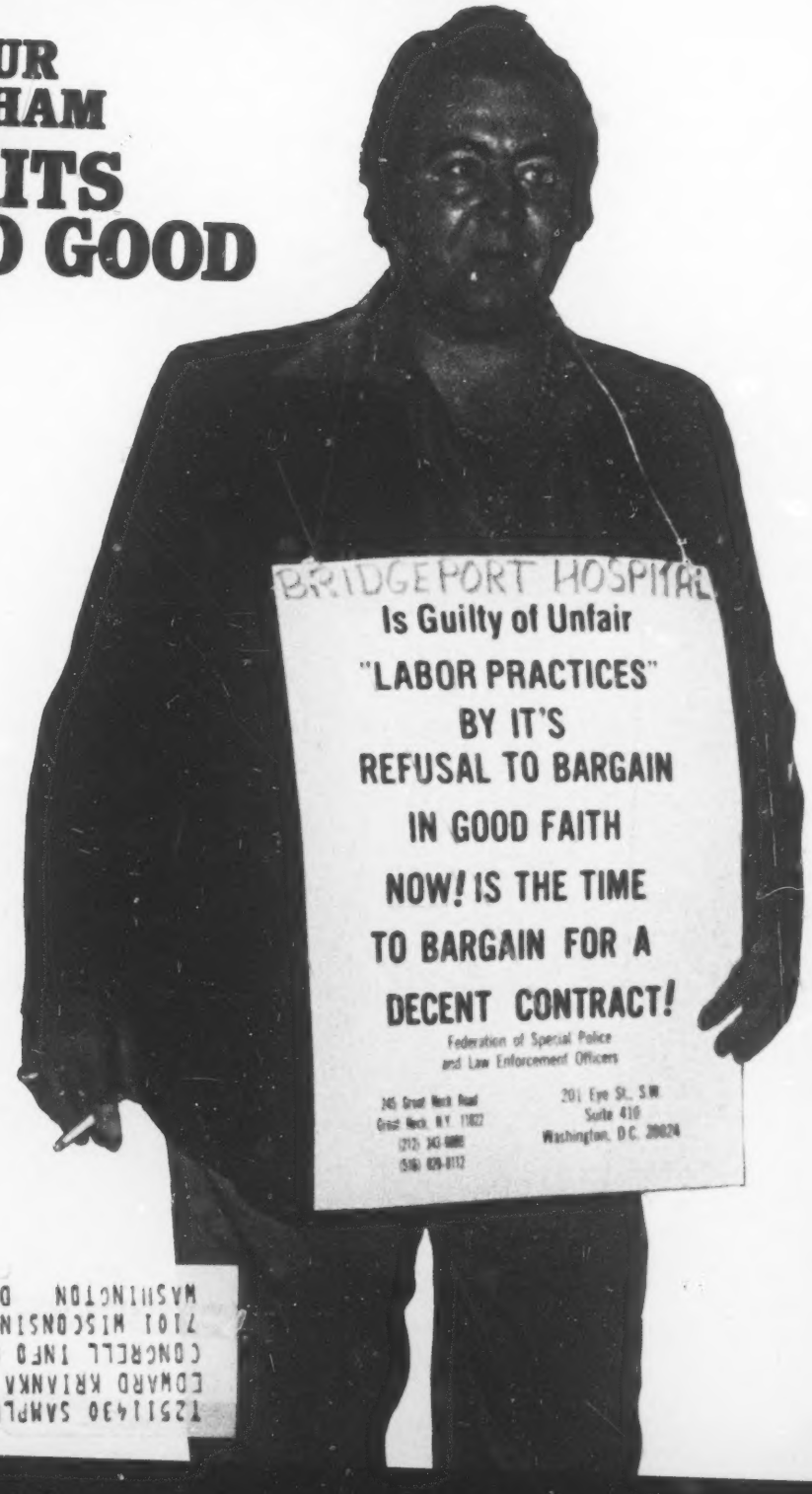
Forbes

ENTREPRENEUR DAN CUNNINGHAM

THE PROFITS WERE TOO GOOD TO LAST



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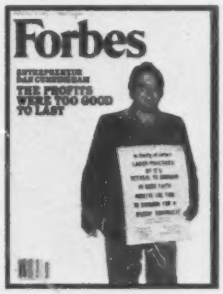
February 14, 1983
Volume 131,
Number 4



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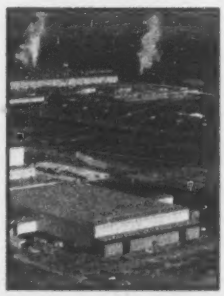

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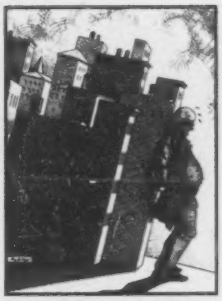

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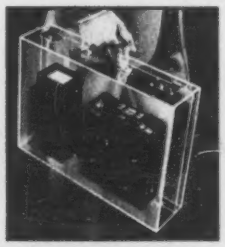

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Illustrations and Charts:
40, 94, 126, Chas. B. Slackman; 42, Gary Halgren; 66, Bob Conrad; 78, Laszlo Kubinyi; 107-111, Alan Reingold; 131, Gil Eisner

Cover Illustration: Ed Binsko

Forbes (ISSN 0015 6914) is published bi-weekly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription $36 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

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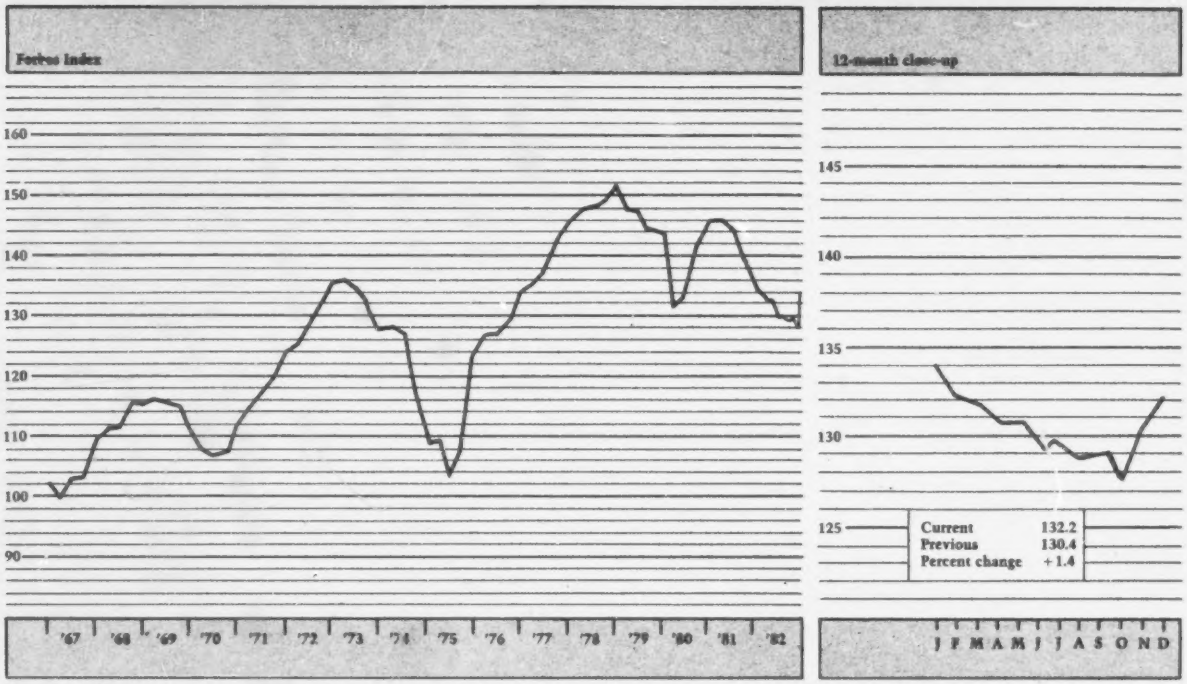
The Forbes Index



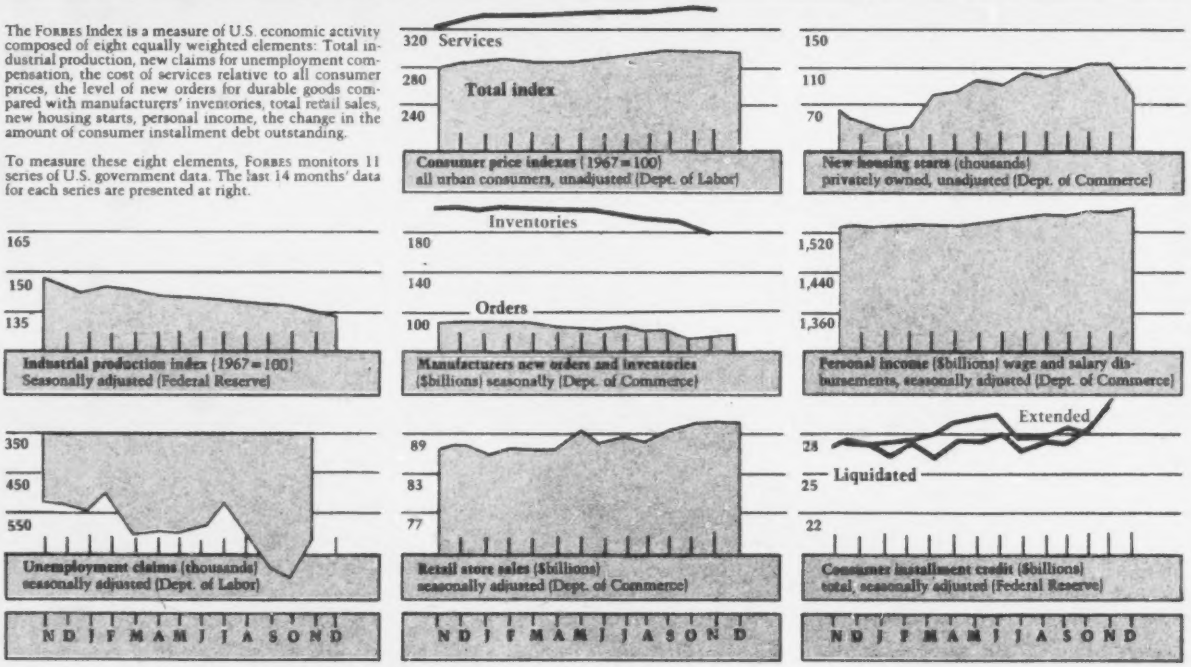
Up she rises. For the second time in a row, the Forbes Index has posted a gain. It rose 1.4% in December, mainly on the strength of a 12% gain in manufacturers' new orders. Personal income also was up, increasing by 1.5%. More good news came from the inflation front with the Consumer Price Index down 0.4% and the service sector index off 0.9%.

On the negative side, retail store sales were down 0.4%. And industrial production kept declining, off 0.1% in December. But the really bad news was new housing starts, which fell 25.5%. That figure is less significant than it first appears, however, since housing starts, so heavily affected by the weather, are considered unreliable as an economic indicator in the winter months. So, excluding housing, the Index may be signaling that an economic recovery is about to begin.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.



The salary of the New York Yankees' once-and-future manager has jumped 733% since he began managing 14 years ago. Is he worth it? You could look it up.

Investing in Billyball

By Paul B. Brown

FLASHBACK: IT'S THE FALL of 1968 and the Minnesota Twins—their 79-83 record earning them a seventh-place finish that year—are watching Detroit play St. Louis in the World Series. The phone rings in the clubhouse, and Twins President Calvin Griffith summons minor league manager Billy Martin.

Martin, then 40 and managing the Twins Triple A farm club, knows he's about to be offered his first major-league manager's contract. With an honor like that, it would be vulgar to talk about money. Martin is ready to take whatever Griffith offers.

"How did you do?" a Twins' executive asks afterwards.

"He offered me $35,000," Martin replies. "I would have taken $30,000."

Those were the good old days.

Flash forward 15 years to Yankee Stadium in the Bronx. George Steinbrenner 3rd, principal owner of the New York Yankees, is about to make the announcement that one tabloid sums up as: " 'Liz and Dick' together again." Steinbrenner, to the surprise of few, names Alfred Manuel Martin manager of the New York Yankees. Assuming he lasts until opening day, it will be Martin's seventh job in the past 14 years and the third time he has managed the Yankees.

How did he do this time? A lot better than the first time.

"All I will say is that it is lots of money for lots of years," said Martin at the press conference. FORBES figures that Martin signed a five-year contract. The first three years are worth about $250,000 each, despite press reports that put the figure much higher. The Yankees won't have to ante up the full amount. The Oakland Athletics, paying off Martin's former contract, will put up a little more than $100,000 of that each year. The last two years are tied into a longer-term service contract. The total pact is worth about $1.25 million, with the Yankees paying about $900,000 of it.

Based on Martin's past performance, the Yankees will get a good return on their $900,000. As Casey Stengel would say: "You could look it up." In each full year after Martin has taken over as manager, the record shows, attendance and revenue have climbed *(see chart)*.

Purists will object that such raw numbers are inconclusive. Attendance had to climb in Texas in 1974, they will argue, because the Rangers had the American League's Most Valuable Player in Jeff Burroughs, the Comeback Player of the Year in Ferguson Jenkins and Rookie of the Year Mike Hargrove.

Such arguments should be dismissed. A good way to determine Martin's worth is to look at his results in Minnesota and Oakland. In 1969 the Twins won 97 games and lost 65, finished first in their division and drew 206,000 more fans than they did the year before (when they won 79, lost 83). The only difference between the two years was Martin. So, the Twins' $5,000 investment in Martin—the difference between what he and previous manager Cal Ermer were paid—generated a $613,000 gain.

Martin did it again in Oakland in 1980. "Billy took what in essence was the same club we had in 1979 and turned it around," says Oakland director of press relations Mickey Morabito. The seventh-place (54-108) Athletics, under manager Jim Marshall and owner Charlie Finley, turned into an 83-79 team that finished second. Attendance, just 306,000 in 1979, increased to 842,000. True, Martin added to Oakland's overhead in 1980. He earned about $175,000—$135,000 more than Marshall. But that investment returned about $2.5 million more in revenue.

The Yankees are not unaware of Martin's appeal. Said one official close to the deal, "We should have all the money—Billy's managerial and service contract—made up in advance ticket sales by April." ■

The return on Billyball

No one can say for sure that cause and effect are at work, but the unarguable fact is: Every time Billy Martin takes over a big-league ball club, its revenues rise. Will that hold true during his new five-year contract? No one knows. Martin has never lasted that long.

Club	Season before Martin		Martin's first full year		Difference in dollars
	Ticket sales (millions)	Place finished	Ticket sales (millions)	Place finished	
Minnesota	1.14 (1968)	7	1.35 (1969)	1	$618,000
Detroit	1.50 (1970)	4	1.59 (1971)	2	226,000[a]
Texas	0.69 (1973)	6	1.19 (1974)	2	1,777,000[b]
Yankees	1.29 (1975)	3	2.01 (1976)	1	3,258,000[c]
Oakland	0.31 (1979)	7	0.84 (1980)	2	2,680,000

[a]Does not include an average 5 cents per ticket increase in 1971
[b]Martin managed Texas for 23 games in 1973
[c]Martin managed Yankees for 56 games in 1975; does not include a 50 cents per-ticket increase in 1976

For a change, here's a market Americans are winning back from the Japanese.

Surrender, you're on candid camera

By John R. Dorfman

THE ARREST IN DECEMBER of James Lewis on extortion charges in connection with the Tylenol poisoning case flashed a light on a small but fast-growing market—surveillance cameras. It's a market that U.S. manufacturers started, lost to the Japanese and now are laboring to win back, with some success.

In November the FBI viewed videotapes made at hundreds of retail locations in New York City. One, taped at an undisclosed location, showed Lewis, who was later arrested at the New York Public Library. But law enforcement is only a sliver of the market. The cameras have a slew of applications, from guarding plants and banks to monitoring the blackjack tables in Las Vegas and Atlantic City.

Equipment producers *(see chart)* sell about $200 million of surveillance equipment annually to a network of perhaps 2,500 dealers and installers. They, in turn, charge customers some $400 million a year for the same equipment, installed. Growth is about 15% per year.

Figure on $800 to $1,000 at retail for a single camera connected by cable to a single monitor. Multiply that by the number of cameras you need. You might, perhaps, throw in a switcher so a single monitoring station can look at each location in turn; that costs around $250 to $500. Then you may want a videotape recorder for $5,000 or so. RCA, for example, sells a taping unit that can record up to 300 hours of time-lapse photos, spaced up to 2½ seconds apart. A bank robber can dash across a room in 2½ seconds, so when a teller trips an alarm the machine will switch from time lapse to "real time" and take a movie of your suspect.

In the early 1960s suppliers of these goodies included such American firms as General Electric, Westinghouse and Blonder-Tongue (a private firm now in cable television). But then the Japanese moved in, with large investments, low labor costs and huge production runs. They equaled or surpassed U.S. manufacturers in quality and beat them on price. For a while, Ikegami Electronics was prominent. Riding its coattails was GBC Closed Circuit TV Corp., a New York City-based outfit that distributed Ikegami products. Today the two have split. GBC, which now makes its own cameras, is struggling to stay in the black. Meanwhile, Ikegami, which now sells its own equipment, was eclipsed in price and quality by Panasonic, a unit of Matsushita.

Panasonic held the market leadership in the early 1970s when it and yet another Japanese competitor, Sanyo, had about 50% of the market. Along with very competitive equipment, Panasonic has emphasized service. It markets through only 350 to 400 dealers, says marketing manager Milton Landau, ones who "know how to design systems." So far, it's a depressingly familiar story. But this time American manufacturers are battling back.

Since 1974 Panasonic has had a tough fight on its hands. In 1981 it lost its lead to an American competitor. Who? None other than much-criticized RCA. What's more, RCA, which used to farm out some camera assembly to Taiwan, now makes all its cameras in Lancaster, Penna.

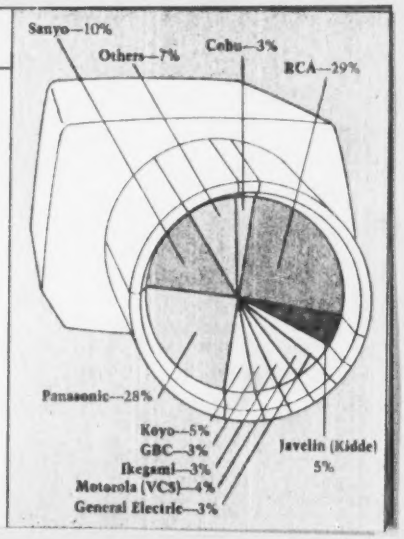
"With integrated circuits and automated manufacturing techniques, we can make them more cheaply here, considering transportation and inventory costs," says Victor Houk, marketing manager for RCA's solid-state systems department. RCA's basic surveillance camera is down from about 240 parts to 146. "Integrated circuits let us reduce the part count tremendously, which reduced labor costs tremendously," says Houk. "We stopped all Taiwan production gradually, ending in 1982. There is definitely a trend, not just with RCA, to bring things back."

How else does RCA compete with the Japanese? Partly through willingness to take custom orders. "The Japanese specialize in long production runs," says Houk. "We are ready to modify a camera for an order as small as 200." RCA's other secret is specializing in high-tech cameras that require almost no light to function. Low-light cameras account for less than one-fifth of unit volume but earn about one-third of dollar volume.

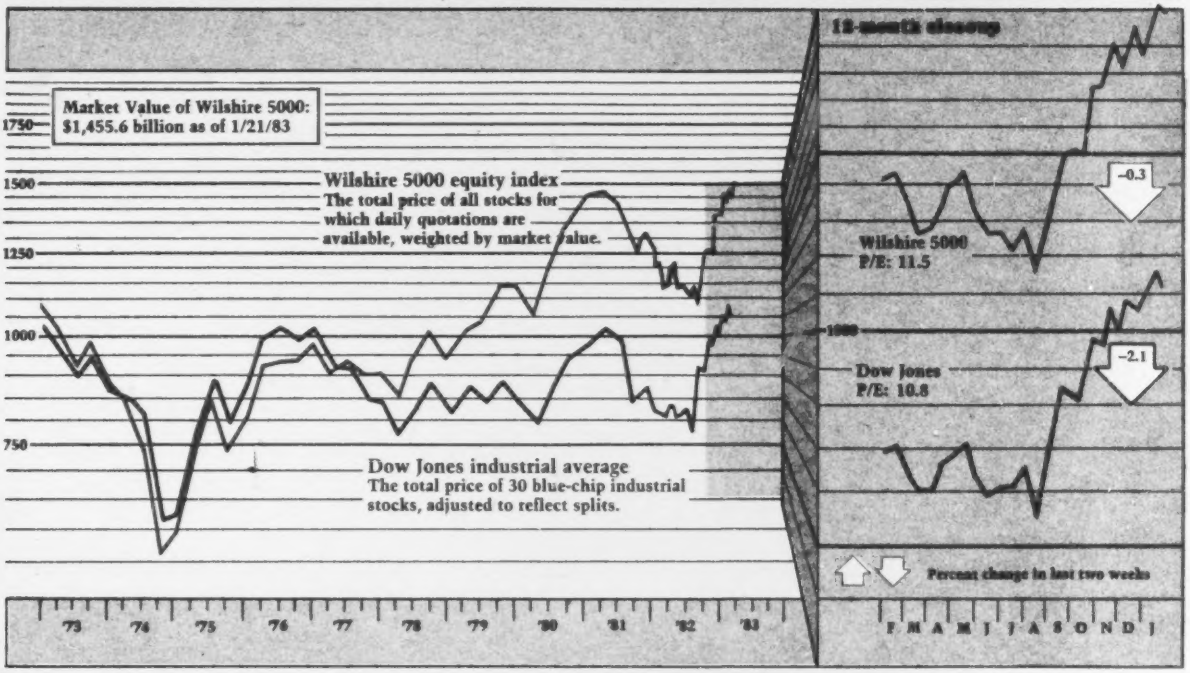
Credit RCA with bringing home a nice chunk of business. More important, is this a straw in the wind? ■

Market snapshot

Americans and Japanese are neck-and-neck in the struggle to control the U.S. market for surveillance equipment. Only an eyelash separates the market shares of top producers RCA and Panasonic.



The Forbes/Wilshire 5000 Review


Market Value of Wilshire 5000: $1,455.6 billion as of 1/21/83
1750
1500
1250
1000
750
Wilshire 5000 equity index
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
'73 '74 '75 '76 '77 '78 '79 '80 '81 '82 '83
12-month closings
-0.3
Wilshire 5000 P/E: 11.5
1000
-2.1
Dow Jones P/E: 10.8
Percent change in last two weeks
F M A M J J A S O N D J

Cold sweat. The bull rally was too hot not to cool off and, sure enough, on the trading day after the reporting period noted below, the market took a major drop. It remains to be seen whether this is merely the long-expected correction or the start of a major market reversal.

Perhaps the last two weeks were the lull before the storm. During this period, on comparatively low volume, the overall market lost ground despite some rekindling of interest in oils, resources, precious metals and cyclical manufacturers. The broad-based Wilshire index fell 0.3% while the Dow slipped 2.1%. The NYSE and the Forbes 500 also registered minor losses. Yet there was some resistance: The Amex was up 0.9% and the NASDAQ index showed a 2.3% gain; most of the gains can be attributed to strength in energy and technology.

The yardstick data continue to indicate a shift in investor preference toward secondary and growth issues. What with the blue chips and even most of the secondary stocks already registering significant gains and appearing to be fully priced, people are taking their chances on firms that are still showing little, if any, sign of recovery. Low-priced issues, for example, advanced 17.4% and high-volatility shares 15.1% over the last four weeks. Stocks with high five-year growth patterns also outperformed the market.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.9	3.0	0.8	3.5	10.3	5.0
in last 52 weeks	24.3	23.2	24.6	24.6	27.9	31.3

Stock performance based on five key investor yardsticks

Percent change	Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	15.1	6.7	11.8	16.1	5.9	14.0	21.6	5.4	2.1	17.4
in last 52 weeks	60.6	33.9	38.2	72.0	30.3	70.4	76.9	36.2	26.8	52.5

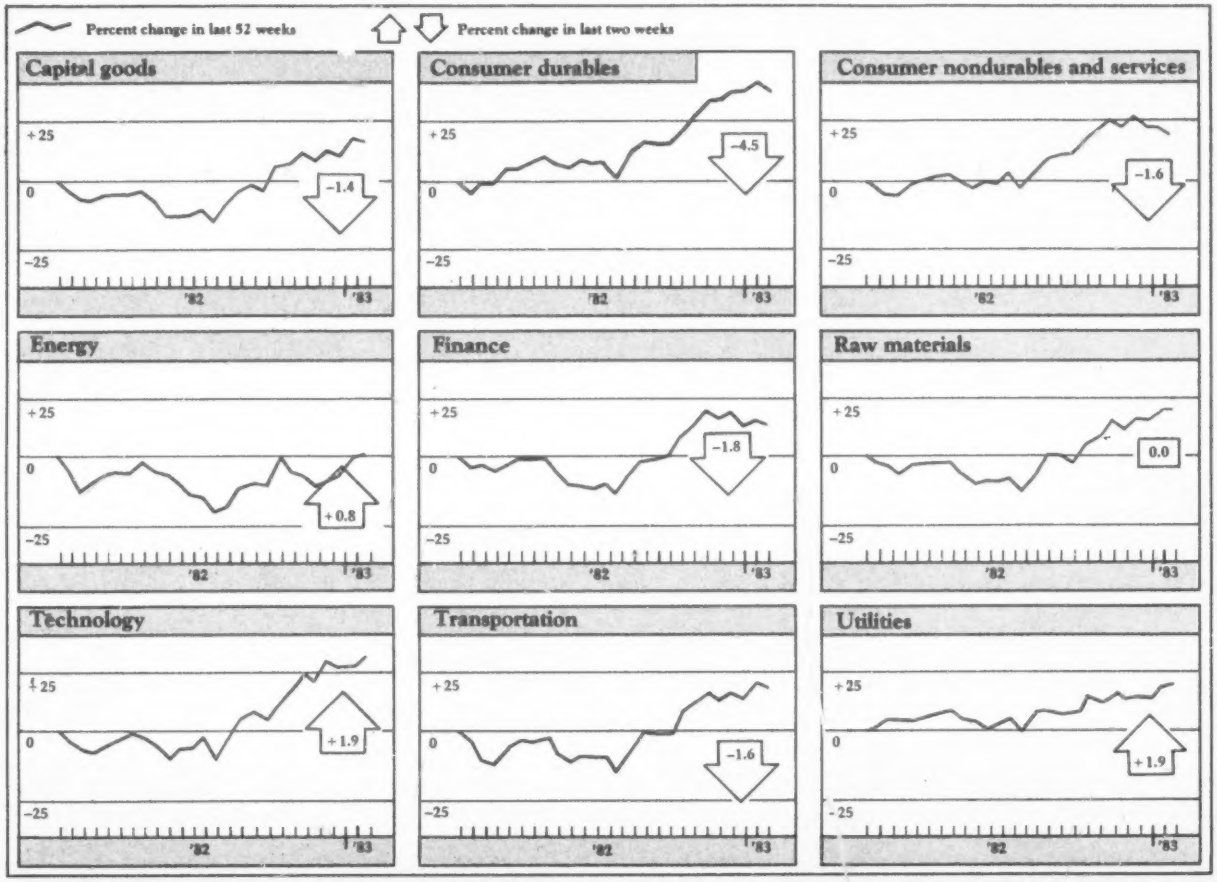
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 1/21/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

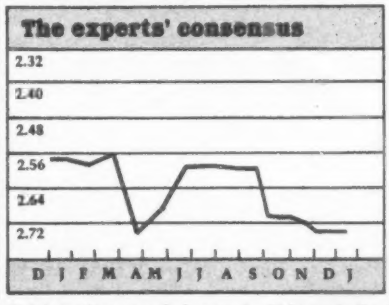
Seems like old times. The individual sectors appear to be reverting to their pre-August 1982 patterns. In the last two weeks, six sectors failed to gain ground. But technology and utility issues both registered 1.9% advances. The high-yielding power companies haven't been at the head of the pack since before the rally started. While energy shares were strong over the last month and show a hefty 11.3% advance, they weakened toward the end of this period. For the most recent two weeks, energy is up only 0.8%.

Investors apparently backed out of auto stocks; the consumer durables sector scored a 4.5% loss. Weak retail figures from December helped pull down consumer nondurables by 1.6%. And a loss of enthusiasm over major bank stocks brought the finance group down 1.8%.



What The Analysts Think

Standing by their guns. Despite the failure of oil stocks to follow through with gains as large as those recorded earlier in the year, analysts are still most optimistic about the energy shares. Note, however, that defensive utilities have quietly moved back from fourth place to third. Meanwhile, overall opinion has not budged in weeks.



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Energy	2.61	1	2
2	Technology	2.62	2	1
3	Utilities	2.69	4	4
4	Capital goods	2.71	3	3
5	Finance	2.77	5	6
6	Transportation	2.79	6	5
7	Raw materials	2.81	7	7
8	Consumer nondurables	2.83	8	8
9	Consumer durables	3.01	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 1/21/83. Prepared by Wilshire Associates, Santa Monica, Calif.

The bull is barely out of the pen, but a number of stocks are already being priced like the skyrockets of the late 1960s.

Highflyers already

As a group, the 23 out of the 30 Dow stocks that are making money recently sold at a price/earnings ratio of just under 11. However, some stocks have already been driven up by the rising market to really dizzying heights. The following table lists 35 companies that lately were at a minimum of 31 times the most recent 12-month reported earnings. The priciest has a truly stratospheric 86 P/E. As a group they average more than 41.

There is something going on here besides merely placing a bet on a recovery by recession-depressed earnings. A quick look at what these companies do confirms the impression that, in some quarters, the "go-go" psychology is beginning to reawaken. Small computer firms, electronics outfits and telecommunications companies heavily predominate. Does this sound familiar?

But notice also that there are housing-related stocks—such as Champion Home Builders and Pulte Home—on the list. This classically cyclical industry has lately been given quite a whirl on Wall Street. In addition, the three retail firms that appear on our table—Hechinger, Home Depot and Lowe's Cos.—cater to the home-improvement market.

Compared with highest reported earnings in 1980 or 1981, "low-priced" electronics firm AVX weighs in at 12.8 times 1980 earnings. The next lowest, engineering services and research firm Bolt, Beranek & Newman, weighs in at 23.

Now try 1983 estimated earnings. Only four of them are selling below 20, while five are selling for more than 30 times what analysts estimate they will earn in 1983, according to figures supplied by Institutional Brokers Estimate System (IBES). (Estimates for three were unavailable.)

On the low end, AVX is selling at 16.5 times estimated 1983 earnings

Shooting for the stars

With the Wilshire index selling at less than 12 times earnings, these highflyers are priced at a considerable premium above the rest of the market. Watch out if the recovery is late or there is a major market correction.

Company/*business*	Recent price	P/E	Earnings per share 1980	1981	latest 12 months	1983 estimate	Book value/ share
Analog Devices/*electronics*	29¼	36	$0.88	$0.40	$0.82	$1.17	$6.29
Anderson Jacobson/*computer equipment*	23¾	53	0.70	0.36	0.45	NA	5.97
Avantek/*electronics*	22¼	39	0.43	0.55	0.57	0.86	3.57
AVX/*electronics*	22⅝	35	1.76	−0.60	0.65	1.37	13.52
Bolt Beranek & Newman/*rsrch, engineering svs*	31⅝	33	1.37	0.44	0.97	1.50	11.17
Champion Home Builders/*manufactured housing*	5¾	48	−0.05	0.10	0.12	0.23	0.99
Communications Inds/*telecommunications*	32¾	32	0.68	0.97	1.02	1.31	2.73
Computer Consoles/*computer equipment*	40¼	33	0.96	1.12	1.21	1.80	6.28
Cordis/*health care supplies*	47	34	1.10	−3.25	1.37	2.72	20.09
Cray Research/*computer equipment*	39½	37	0.85	1.32	1.08	1.87	6.95
Dysan/*computer equipment*	17⅝	32	0.74	0.38	0.55	0.87	1.47
Fay's Drug/*drugstores*	13¼	32	0.17	0.54	0.41	1.02	3.35
GenRad/*electronics*	34⅝	62	1.39	−0.23	0.56	1.67	9.55
Hechinger/*retail*	35¼	31	0.82	0.94	1.14	1.48	4.36
Home Depot/*retail*	29¼	70	0.05	0.12	0.42	1.07	0.35
Intergraph/*computer equipment*	53¾	64	0.50	0.75	0.84	1.68	4.38
Kinder-Care Learning Ctrs/*day-care centers*	22	30	0.55	0.56	0.73	1.07	3.43
Liebert/*computer center control sys*	30¼	34	0.38	0.65	0.88	1.20	3.64
Lowe's Cos/*retail*	35⅜	31	0.97	0.91	1.15	1.86	6.06
Managemt Science of Amer/*computer software*	23¾	58	0.27	0.42	0.41	0.72	2.73

NA: Not available.

Sources: Wilshire Associates; Standard & Poor's; Institutional Brokers Estimate System (IBES) of Lynch, Jones & Ryan.

Shooting for the stars

Company/*business*	Recent price	P/E	Earnings per share 1980	1981	latest 12 months	1983 estimate	Book value/ share
Marion Labs/*ethical drugs*	49⅜	45	$0.93	$0.90	$1.09	$1.47	$9.91
NBI/*computer equipment*	41⅜	33	0.47	0.81	1.25	1.59	8.00
Pulte Home/*building*	43⅛	38	0.94	0.75	1.14	2.52	5.82
Quality Care/*health care services*	7¾	86	−1.07	−0.38	0.09	NA	neg
Rouse Co/*real estate*	26¾	46	0.29	0.37	0.58	0.65	4.09
Sensormatic Electronics/*theft-control devices*	42½	36	0.47	0.72	1.19	1.85	2.78
Shared Medical Sys/*health care computer sys*	52¼	32	1.10	1.37	1.65	2.12	5.35
Skyline Corp/*manufactured housing*	24⅝	42	0.54	0.60	0.58	1.26	10.17
Tandem Computers/*computer equipment*	25⅞	34	0.35	0.72	0.76	1.15	5.63
Tandon/*computer equipment*	32¼	44	0.12	0.26	0.73	1.22	0.84
Tele-Communications/*CATV, cable TV*	26¾	48	0.34	0.48	0.56	0.42	8.95
TIE Communications/*telecommunications equip*	40⅝	37	0.36	0.86	1.09	NA	3.40
Wal-Mart Stores/*retail*	47	31	0.87	1.25	1.53	2.32	4.99
Wang Labs*/*computer equipment*	33½	36	1.00	1.36	0.93	1.17	4.13
Winnebago Inds/*recreational vehicles*	13⅜	37	−0.54	0.19	0.36	0.58	2.83

*Class B. NA: Not available. neg: Negative.

Sources: Wilshire Associates, Standard & Poor's, Institutional Brokers Estimate System (IBES) of Lynch, Jones & Ryan.

and Pulte Home, at 17.1. In contrast, Tele-Communications has an estimated multiple of 63.7.

There's no doubt that excellent earnings growth deserves a premium in the marketplace, and some of these stocks have had results that look genuinely spectacular. The question is: what price?

To justify prices like these, you have to look past 1983 to projected earnings for 1984, 1985 and beyond. Sometimes, far beyond.

What does it all mean? The reappearance of such multiples on stocks like these suggests that the first, glorious, easy phase of an up market, when you could buy almost anything and get a good ride, may be drawing to a close. A solid economic recovery, once it appears, may justify further general rises in stock prices, even over a couple of years, as did past recoveries. But for an investor who wants to get on the bandwagon now, the time is clearly at hand when he would be well advised to look at the stock's price and relate it to the company's near-term prospects, not just The Street's optimism. ■

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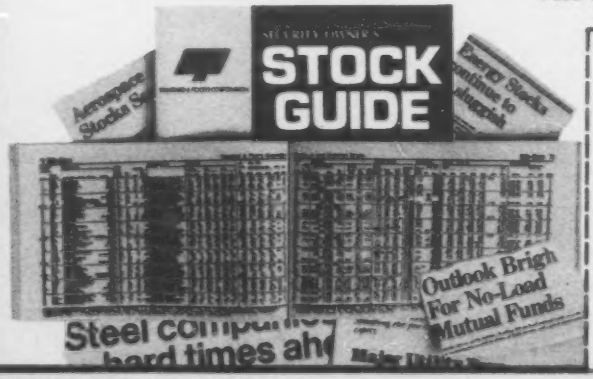

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